

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**SUPPLY PERFORMANCE
FOR FOREIGN MILITARY SALES**

Report No. 95-232

June 12, 1995

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

20000113 088

Department of Defense

DTIC QUALITY INSPECTED 4

ABII 00-04-0925

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Supply Performance for Foreign Military Sales

B. DATE Report Downloaded From the Internet: 01/12/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):
OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 01/12/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

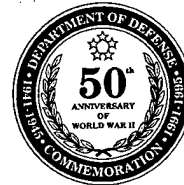
To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.

Acronyms

CCSS	Commodity Command Standard System
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FMS	Foreign Military Sales
MISIL	Management Information System for International Logistics
ROD	Report of Discrepancy



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



June 12, 1995

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE SECURITY ASSISTANCE
AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Supply Performance for Foreign Military Sales
(Report No. 95-232)**

We are providing this final report for your review and comments. This report discusses whether the Military Departments had adequate systems and procedures for reporting Defense articles to the Defense Finance and Accounting Service for billing foreign military sales customers. Management comments on a draft of this report were considered in preparing the final report.

Army and Air Force comments were responsive to our recommendations and additional comments are not required. The Navy did not provide comments to our draft report. DoD Directive 7650.3 requires that all recommendations be resolved promptly in the event of nonconcurrence or failure to comment. Therefore, we request that the Navy provide comments on the final report by August 11, 1995.

We appreciate the courtesies extended to the audit staff. If you have any questions, please contact Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Mr. Ronald C. Tarlaian, Audit Project Manager, at (703) 604-9185 (DSN 664-9185). Copies of the final report will be distributed to the activities listed in Appendix C. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-232
(Project No. 4FA-0028)

June 12, 1995

SUPPLY PERFORMANCE FOR FOREIGN MILITARY SALES

EXECUTIVE SUMMARY

Introduction. Supply performance for foreign military sales (FMS) consists of the issue and movement of material sold to FMS customers. DoD regulations require the Military Departments to report shipments of material to the Defense Finance and Accounting Service (DFAS) Denver Center within 30 days of occurrence (shipment or performance). When title to the material transfers to FMS customers, contractors and depots are required to submit notices of shipment to the inventory control points, which generate FMS detail delivery cards and report the transactions to the DFAS Denver Center for billing. FMS customers establish a Trust Fund Account to pay for the material at the initiation of an order; however, the Military Departments are not reimbursed for the additive charges, such as general and administrative expenses, until the DFAS Denver Center bills the FMS customer for the material. Also, the Military Departments and the Defense Logistics Agency are responsible for processing reports of discrepancy submitted by FMS customers within a year of the date of either shipment or billing. DoD regulations require the inventory control points of the Military Departments and the Defense Logistics Agency to adequately research, document, and resolve reports of discrepancy within the established time frames.

Objectives. The objective of the audit was to determine whether the Military Departments had an adequate system for reporting shipments of material to the DFAS Denver Center for billing FMS customers. We also reviewed the procedures used by the Military Departments and the Defense Logistics Agency for researching and resolving reports of discrepancy associated with those shipments. Finally, we reviewed the management control program established within the Military Departments to ensure that FMS customers were promptly billed for all shipments.

Audit Results. The Military Departments did not have effective systems and procedures for reporting shipments of material. Material costing \$1.9 billion was not reported within established time frames to the DFAS Denver Center for billing FMS customers. As a result, the Military Departments delayed reimbursement of \$57.4 million in general and administrative expenses to DoD. Also, the Army and the Air Force expended unnecessary resources to manually record those transactions in the supply system. The audit identified a material management control weakness, in that the Air Force did not have effective procedures for recording shipments of material in the supply system and for reporting them to the DFAS Denver Center for billing FMS customers. See Part I for details of controls assessed and the finding for a discussion of the weakness identified. Implementation of the recommendations in this report will result in improvements in reporting shipments of material for FMS customers. Monetary benefits may result, but they are not quantifiable. See Appendix A for a summary of audit benefits.

Our review of the processing by the Military Departments and the Defense Logistics Agency of reports of discrepancy disclosed only minimal deficiencies. Part I, "Other Matters of Interest," provides details of those deficiencies.

Summary of Recommendations. We recommended that the Army modify the Commodity Command Standard System or its replacement system to allow material "shipped in place" at contractor facilities to be recorded. We also recommended that the Navy reprogram the Management Information System for International Logistics or its replacement system to report shipments of material using the billing price. Finally, we recommended that the Air Force implement internal control procedures for recording shipments of material in its supply system.

Management Comments. The Army and the Air Force concurred with the finding and recommendations. The Army will identify the system changes necessary to allow FMS material "shipped in place" at contractor facilities to be recorded in the supply system and the Air Force established procedures to ensure compliance with the reporting requirements outlined in Air Force Manual 67-1. The Navy did not provide comments to a draft of this report. A discussion of management comments is in Part II of the report. The complete texts of management comments received are in Part IV of the report.

Audit Response. We request comments from the Navy by August 11, 1995.

Table of Contents

Executive Summary	i
Part I - Introduction	1
Background	2
Objectives	3
Scope and Methodology	3
Management Control Program	4
Prior Audits and Other Reviews	5
Other Matters of Interest	6
Part II - Finding and Recommendations	9
Reporting Shipments of Material for Foreign Military Sales Customers	10
Part III - Additional Information	17
Appendix A. Summary of Potential Benefits Resulting From Audit	18
Appendix B. Organizations Visited or Contacted	19
Appendix C. Report Distribution	20
Part IV - Management Comments	23
Army Comments	24
Air Force Comments	26

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Introduction

Background

Supply Performance. Supply performance for foreign military sales (FMS) is the term used to describe the issue and movement of material that has been sold to FMS customers. When material is shipped to FMS customers, contractors submit a DD Form 250, "Material Inspection and Receiving Report," and depots submit a DD Form 1348, "DoD Single Line Item Release/Receipt Document," to the inventory control points as a notice of shipment. The inventory control points generate FMS detail delivery cards for the shipments and use the cards to report the shipments to the Defense Finance and Accounting Service (DFAS) Denver Center, for its use in billing FMS customers. FMS customers establish a Trust Fund Account at the initiation of an order to pay for the material; however, the Military Departments are not reimbursed for additive charges, such as general and administrative expenses, until the DFAS Denver Center bills the FMS customer for the material.

When an FMS customer encounters a problem with a shipment of material (nonreceipt, damage, shortage, or wrong item), the customer is allowed to seek restitution from DoD or the contractors by submitting a report of discrepancy (ROD) within a year of the date of either shipment or billing. The Military Departments' International Logistics Control Offices receive the ROD from the FMS customer and determine whether to accept, reject, or automatically grant credit for the ROD¹. After accepting the ROD, the International Logistics Control Office submits the ROD to the inventory control point or supply depot for processing. When the DoD is determined to be liable for the discrepancy, credits are processed from the General and Administrative fund to FMS customers.

Governing Regulations. The Arms Export Control Act of 1976, as amended, governs the sale of Defense articles to eligible foreign customers and requires DoD to manage the FMS program. DoD Manual 5105.38-M, "Security Assistance Management Manual," states that DoD Components must report all constructive deliveries to the DFAS Denver Center within 30 days of occurrence (shipment or performance). Also, DoD Regulation 4140.60, "Processing Discrepancy Reports Against Foreign Military Sales Shipments," establishes the policy and procedures regarding the methods and conditions under which RODs submitted by FMS customers are processed.

¹To reduce the expenditure of resources, the International Logistics Control Office has the option to write off low dollar RODs in lieu of processing those RODs.

Objectives

A primary objective of the audit was to determine whether the Military Departments had an adequate system for reporting shipments of material to the DFAS Denver Center for billing FMS customers. We also reviewed the procedures the Military Departments and the Defense Logistics Agency (DLA) used for researching and resolving RODs associated with those shipments. Finally, we reviewed the internal control procedures established within the Military Departments to ensure that FMS customers were promptly billed for all shipments.

Scope and Methodology

Process for Reviewing Shipment Transactions. To determine the adequacy of the Military Departments' reporting systems, we reviewed the procedures and systems used by the procurement and the program offices to record shipments of material in the supply system and to report those shipments to the DFAS Denver Center for billing FMS customers within the required DoD 30-day time frame. To accomplish the review, we obtained a Navy universe of 3,426 transactions, with material valued at \$1.1 billion, in which the transactions were recorded in the supply system, but not reported to the DFAS Denver Center for billing FMS customers within the established 30-day time frame. From that universe, we judgmentally selected 100 transactions, totaling \$710 million, to determine the reasons for the delays in reporting those transactions to the DFAS Denver Center. Based on the methods the Army and the Air Force used to record transactions in the supply system, we were unable to obtain a universe of transactions. Therefore, we reviewed the Army's missile and combat vehicle programs and the Air Force's F-15 aircraft program. For those programs, we interviewed personnel in the Defense Accounting Offices, the Security Assistance Management Divisions, the Acquisition Offices, and the Program Offices to determine why shipments of material were not recorded in the supply system and promptly reported to the DFAS Denver Center for billing FMS customers.

ROD Sample Selection Process. We obtained from the Army and the Navy reports that listed in-process and completed RODs (January 1993 through May 1994) that exceeded \$500. Because of the large volume of RODs within the Air Force, we increased the Air Force dollar criteria from \$500 to \$2,000 to obtain a manageable universe. The Military Departments' reports provided a universe of 8,940 RODs, valued at \$260.3 million. From the 8,940 RODs, we judgmentally selected 300 RODs (100 from each of the Military Departments), valued at \$110.4 million, consisting of claims for material shortages, nonreceipt of material, damaged material, and receipt of wrong material. Of the \$110.4 million sample, \$29.8 million was for the Army, \$69 million was for the Navy, and \$11.6 million was for the Air Force. The sample focused on medium- and high-dollar value RODs from supply and procurement shipments.

Introduction

Elements of Scope. We obtained and reviewed Letters of Offer and Acceptance, contracts, billing and shipping documents, RODs, and other relevant information from logistics and financial contract and case files at the Military Departments and DLA. We compared FMS contract delivery dates to Material Inspection and Receiving Reports and the Military Departments' computer system data. We discussed policies and procedures with contract, finance, and logistics personnel. We reviewed pertinent DoD regulations and determined whether the Military Departments promptly reported FMS shipments to the DFAS Denver Center for billing. We also reviewed the procedures that the Military Departments and DLA used for processing RODs submitted by FMS customers and evaluated the related internal controls. Based on a review of the source documents and financial records, we concluded that the computer-processed data were not reliable because shipments of material were not recorded in the supply system.

Audit Time Period, Standards, and Locations. This program results audit was made from February through December 1994 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense. The audit included such tests of internal controls as were considered necessary. Appendix B lists the organizations visited or contacted.

Management Control Program

Controls Assessed. We evaluated the management control program within the Military Departments and DLA to ensure that adequate systems had been established for reporting shipments of material and for processing RODs. Specifically, we:

- o reviewed the management controls that the procurement officers and program managers used to report shipments of material to the DFAS Denver Center for its use in billing FMS customers, and

- o evaluated the management controls that the ROD technicians and the supply technicians used to process RODs submitted by FMS customers.

We also assessed the implementation of the DoD Internal Management Control Program within the Military Departments and DLA associated with the reporting of shipments and the resolution of RODs related to those shipments.

Weaknesses Identified. The audit identified material weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The Air Force did not have effective procedures for recording shipments of material in the supply system and for reporting those shipments to the DFAS Denver Center for its use in billing FMS customers. The Air Force did not promptly report \$880 million of Defense articles and services sold to Saudi Arabia; and DLA supply depots did not retain adequate documentation for shipments of material. Recommendations 3 and 4, if implemented, will correct

those weaknesses. Implementing the recommendations may result in monetary benefits; however, those benefits were unquantifiable. Appendix A summarizes the benefits associated with the audit. Copies of this report will be provided to the senior officials within the Military Departments and DLA responsible for management controls.

Prior Audits and Other Reviews

Inspector General DoD Reports. Inspector General, DoD, Report No. 92-108, "Accessorial Charges Applied to Foreign Military Sales," June 26, 1992, disclosed that the Military Departments did not submit accurate and timely reports to the DFAS Denver Center when Defense articles were shipped to FMS customers. As a result of the untimely reporting procedures, the Military Departments delayed the transfer of \$246 million in funds from the FMS Trust Fund Account to the proper U.S. Government appropriations. Generally, management concurred with the recommendations; the Army directed the finance and accounting office to validate delivery reports; the Navy reprogrammed the Management Information System for International Logistics (MISIL) system to allow deliveries to be reported without actual contractor payments; and the Air Force corrected the delivery reporting errors.

Inspector General, DoD, Report No. 91-085, "Procurement of Medical Materiel and Equipment," May 30, 1991, disclosed that reviews of RODs for direct vendor delivery awards were ineffective and inconsistently applied and did not identify potential patterns of vendor abuses. Further, management did not ensure that RODs were processed properly and that appropriate action (processing customer credits) was taken. As a result, RODs for material that was nonconforming, not received, and varied in the quantity ordered were routinely accepted as valid without recourse to the shipping activities, and vendors continued to receive awards because patterns of vendor abuse were not identified. Generally, management concurred with the recommendations and conducted a training session covering the results of the audit for ROD clerks and their supervisors.

Air Force Audit Agency Report. Air Force Audit Agency, Project No. 92063011, "Foreign Military Sales Reports of Discrepancy," October 15, 1993, disclosed that item managers at Air Logistics Centers did not take appropriate actions to guard against duplicate FMS shipments. As a result, \$125,659 of assets were erroneously shipped to FMS customers and the Air Force and FMS customers incurred unnecessary costs associated with the processing of RODs. Generally, management concurred with the recommendations and issued a letter instructing the Air Logistics Centers to ensure their operating instructions complied with the policy in Air Force Manual 67-1.

Other Matters of Interest

Defense Logistics Agency's Policy for Granting Credits for RODs. DoD Regulation 4140.60 requires inventory control points of the Military Departments and DLA to research RODs with a value of at least \$200 to determine the validity of customers' claims before providing credits to the customers' Trust Fund Account. Contrary to DoD policy, the Defense Electronics Supply Center established procedures to grant credit to FMS customers for RODs received with a value up to \$1,500 without determining the validity of customers' discrepancy claims. The Defense Electronics Supply Center established those procedures because its internal review organization determined that the supply depots were not retaining documentation to support deliveries to FMS customers. However, the procedures could result in unnecessary losses to the Military Departments because the customers' claims could have been denied (with the proper research) without a financial adjustment. To avoid potential losses, the Defense Electronics Supply Center should change its procedures and research RODs valued at \$200 or more in accordance with DoD Regulation 4140.60.

The Defense Industrial Supply Center established procedures to grant credit to FMS customers for RODs claiming material shortages, without conducting the proper research. The Defense Industrial Supply Center established the procedures because of its difficulty in obtaining the necessary information to research and resolve RODs. In contrast, the Military Departments, for the most part, were able to research and resolve RODs for material shortages by using available shipping documentation and logistics systems information. To preclude the granting of unnecessary credits to customers for RODs claiming material shortages, the Defense Industrial Supply Center should issue procedures covering the resolution of RODs to comply with DoD Regulation 4140.60.

The Army's Acceptance Criteria for RODs. U.S. Army Security Assistance Command Memorandum No. 12-2, "Processing Reports of Discrepancy for Army and DLA/General Services Administration Items," requires FMS customers to contact the freight forwarders (responsible for transporting material to FMS customers) for delivery status before submitting RODs for nonreceipt of material. ROD technicians at the U.S. Army Security Assistance Command were accepting RODs submitted for nonreceipt of material without evidence that FMS customers contacted their freight forwarders, as required. As a result, the Army expended unnecessary resources to process the invalid RODs, which had a detrimental effect on its ROD work load. In January 1994, the Defense Security Assistance Agency issued guidance that reemphasized the need for the Military Departments to reject nonreceipt of material RODs that did not indicate that FMS customers contacted their freight forwarders. After our audit, the U.S. Army Security Assistance Command was in the process of ensuring that the ROD technicians complied with the January 1994 guidance.

The Army's Legal Opinions on RODs. U.S. Army Security Assistance Command Memorandum No. 12-2 also requires the Army major subordinate commands to obtain a legal opinion when denying credits to customers for

RODs over \$10,000 that will be presented to the U.S. Army Security Assistance Command Review Board for possible write off to the General and Administrative Fund. Those RODs are presented to the review board when the U.S. Army Security Assistance Command challenges the major subordinate commands' responses for denying credits to FMS customers. The U.S. Army Security Assistance Command was requiring the major subordinate commands to obtain legal opinions on RODs over \$10,000, regardless of whether the RODs would be submitted to the review board. As a result, the Army was expending unnecessary resources to have the general counsel of the major subordinate commands to issue an opinion regarding the denial of RODs. After our audit, the U.S. Army Security Assistance Command initiated corrective action to comply with its established policy.

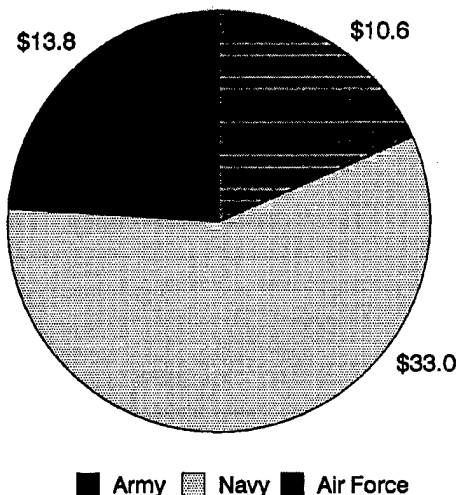
The Air Force's System for Processing RODs. The ROD offices at the Air Logistics Centers did not have a tracking system capable of providing the necessary ROD feedback data (suspense dates and financial adjustment actions) to logistics management specialists to effectively research and process RODs. Based on discussions with the Air Force Security Assistance Center, the status of RODs are tracked using the Security Assistance Management Information System, while the ROD offices use an internal data base system to track RODs. The use of multiple systems caused a duplication of effort and delayed the ROD process because the same ROD information is input into different systems. Rather than maintaining duplicate tracking systems, the ROD offices should have access to ROD information contained in the Security Assistance Management Information System for processing RODs. That access would avoid duplicate systems being maintained, reduce the costs of processing RODs, and facilitate the timely resolution of RODs to process financial adjustments to the customers' Trust Fund Account. After our audit, the Air Force Security Assistance Center, International Information Technical Directorate, was in the process of providing the ROD offices at the Air Logistics Centers with access to the Security Assistance Management Information System.

This page was left out of original document

Part II - Finding and Recommendations

Reporting Shipments of Material for Foreign Military Sales Customers

The Military Departments did not promptly report shipments of material costing \$1.9 billion to the DFAS Denver Center for its use in billing FMS customers. The condition occurred because the Army's Commodity Command Standard System did not process transactions for material "shipped in place" at contractor facilities, the Navy's MISIL system did not report estimated billings for major end items within established time frames, and the Air Force did not have effective procedures for ensuring that shipments of material were properly recorded in the supply system. As a result, the Military Departments delayed reimbursement of \$57.4 million in general and administrative expenses to DoD (see figure below). Further, the Army and the Air Force expended unnecessary resources to manually record shipments of material in the supply system.



Delayed Reimbursement of General and Administrative Expenses
(millions)

Background

Policy for Reporting Transactions for Billing. DoD Manual 5105.38-M, "Security Assistance Management Manual," requires that the Military Departments report accrued expenditures and constructive deliveries to the

Reporting Shipments of Material for Foreign Military Sales Customers

DFAS Denver Center within 30 days of occurrence (shipment or performance) for its use in billing FMS customers. The manual also requires the Military Departments to report shipments of material upon transfer of title to FMS customers, even when the material is stored at contractor facilities. To comply with the 30-day reporting requirements, the Military Departments are responsible for recording shipments of material in the supply system as well as reporting those shipments to the DFAS Denver Center. DFAS Denver Center uses the reported shipments to bill FMS customers; thus ensuring that DoD is reimbursed for additive costs from the customers' Trust Fund Account.

Systems and Procedures Used to Report Material Shipments

The Army's System. The Army did not have an adequate system for reporting material "shipped in place" (title transferred to the customer without the physical movement of the material) at contractor facilities to the DFAS Denver Center to initiate the billing process. The Army did not report to the DFAS Denver Center for billing FMS customers material for missiles and combat vehicles, valued at \$459 million. By not reporting the material, the Army delayed the reimbursement of \$13.8 million in general and administrative expenses to DoD. We were unable to obtain a universe of transactions not reported to the DFAS Denver Center for billing FMS customers, therefore, we concentrated our audit efforts on the Army's missile and combat vehicle programs to determine why the shipments were not reported promptly.

Procedures for Recording Shipments. The Army Tank-automotive and Armaments Command and the Army Missile Command did not record material "shipped in place" at contractor facilities in the Commodity Command Standard System (CCSS). Those commands depended on data inputs into the CCSS (FMS shipping address input by the procurement officers) to record, accumulate, and report shipments of material through the U.S. Army Security Assistance Command for processing FMS billings to the DFAS Denver Center. Administrative contracting officers at the Defense Contract Management Area Office record shipments (based on the Material Inspection and Receiving Reports) in the Mechanization of Contract Administration System. Usually, the data in the Mechanization of Contract Administration System will update the CCSS shipping information. However, for material "shipped in place" at contractor facilities, the CCSS did not process the shipment performance notices because those transactions did not contain specific shipping instructions. Shipments of material were recorded in the CCSS only when the procurement officers manually recorded those shipments.

The Army Tank-automotive and Armaments Command did not promptly record the shipment of vehicles totaling \$418.4 million, and the Army Missile Command did not record the shipment of missiles totaling \$40.6 million in the CCSS. Both unrecorded shipments delayed reimbursement of \$13.8 million in general and administrative expenses to DoD. When shipments of material are not recorded in the CCSS, the major subordinate commands lose visibility over assets sold to FMS customers and extend the DoD liability for the physical

Reporting Shipments of Material for Foreign Military Sales Customers

safety of the material. To avoid the numerous unrecorded shipments of material and to maintain an accurate record of daily supply operations, the Army needs to modify the CCSS or its replacement system to allow "shipped in place" transactions to be recorded, thus eliminating the need for the Army Tank-automotive and Armaments Command and the Army Missile Command to manually record those transactions in the CCSS.

The Navy's System. The Navy did not have an effective system for reporting shipments of major end items to the DFAS Denver Center for its use in billing FMS customers within the established time frames. Those shipments were not reported to the DFAS Denver Center within 30 days of occurrence, as required, because the Navy reprogrammed the MISIL system to prevent estimated billings from occurring for major end items. As of August 1994, the Navy had not reported 3,426 transactions, valued at \$1.1 billion, to the DFAS Denver Center, which delayed reimbursement of \$33 million in general and administrative expenses to DoD. For one transaction, the customer's billing was delayed for 17 years. We were able to obtain a listing of Navy transactions that were recorded in the supply system but were not reported to the DFAS Denver Center for billing FMS customers. We used a sample from that listing (100 transactions) to determine why the 3,426 transactions were not promptly reported to the DFAS Denver Center for billing FMS customers.

Reprogramming the MISIL System. The financial program managers at the Defense Accounting Office Philadelphia are responsible for reporting shipments of material through the MISIL system. The Navy's procedures require that the financial program managers obtain the contractors' final billing (actual costs) before reporting shipments in the MISIL. Before 1987, the Navy International Logistics Control Office established requisitions for each component part of a major end item and used the billing price² to report transactions for those requisitions to the DFAS Denver Center. With increased sales to FMS customers and the practice of establishing those requisitions at the component level, the MISIL system's processing and storage capacity was exceeded. Under the FMS Financial Management Improvement Program, the Navy was allowed to temporarily eliminate reporting transactions using the billing price until the MISIL system could be upgraded. The Navy reprogrammed the MISIL system to eliminate reporting major end items using the billing price and established procedures to report transactions for major end items using actual costs, based on the contractors' final billing. However, that procedure did not allow the Navy to comply with DoD Manual 5105.38-M and report shipments of material to the DFAS Denver Center within 30 days of occurrence because contractors submitted final billings only upon completion of the contract.

Defense Security Assistance Agency Reporting Requirements. In March 1987, the Defense Security Assistance Agency instructed the Navy to reestablish the MISIL system's processing logic to report transactions using the billing price because the procedures that the Navy was using caused

²For purposes of this report, the billing price is defined as the estimated cost of the material.

Reporting Shipments of Material for Foreign Military Sales Customers

inconsistencies in the FMS customer's quarterly billing statement. By the end of 1989, the Navy had upgraded the MISIL system but had not restored the processing logic for reporting major end items using the billing price. By June 1994, the Navy had not complied with the DoD reporting requirements for shipments of material; therefore, the Defense Security Assistance Agency issued guidance to the Navy reemphasizing the need to report shipments of material to the DFAS Denver Center within the 30-day time frame established by DoD Manual 5105.38-M. Because the MISIL system did not have the capability to report major end items using the billing price, FMS customer billings are delayed, which delays the reimbursement of additive costs to DoD.

Air Force Procedures. The Air Force did not have effective procedures for properly recording shipments of material in the Acquisition and Due-In System (supply system) and for reporting those shipments to the DFAS Denver Center for billing FMS customers. The Air Logistics Centers did not promptly report \$355.6 million in shipments of material for the F-15 engine upgrade kits to the DFAS Denver Center, which delayed reimbursement of \$10.6 million in general and administrative expenses to DoD. We were unable to obtain a usable universe of shipments to FMS customers that was not reported to the DFAS Denver Center for billing, therefore, we concentrated our audit efforts on the high dollar F-15 weapon system to determine why the shipments were not reported promptly.

F-15 Aircraft Program Shipments. The F-15 Aircraft Systems Program Office at the Warner Robins Air Logistics Center did not have effective procedures for reporting shipments relating to the Peace Sun VI, VII, and IX programs for Saudi Arabia. For each program, the item managers within the Systems Program Office incorrectly input or did not input the contract information into the supply system. Usually, shipment performance notices from the Mechanization of Contract Administration System would be used to update the contract information in the supply system. However, because the supply system did not contain FMS contract requirements, the shipments of material were not recorded. Therefore, the Warner Robins Air Logistics Center did not report shipments of material, valued at \$298 million, to the DFAS Denver Center, which delayed the reimbursement of \$8.9 million in general and administrative expenses to DoD. Additionally, to initiate the reporting process to the DFAS Denver Center, the Warner Robins Air Logistics Center will expend unnecessary resources to determine which contracts have not been properly input into the supply system in order to make the necessary corrections.

Based on our audit, the Warner Robins Air Logistics Center established a process action team to review the contracts for the Peace Sun programs as a means of ensuring that program contract requirements are properly entered into the supply system.

F-15 Engine Upgrade Kits Shipments. The Defense Accounting Office San Antonio did not report shipments of F-15 engine upgrade kits, valued at \$57.7 million, to the DFAS Denver Center, in accordance with guidance in DoD Manual 5105.38-M. The Defense Accounting Office did not report the shipments because it was dependent on the item managers at the

Reporting Shipments of Material for Foreign Military Sales Customers

San Antonio Air Logistics Center to provide actual costs (in confirmation letters) for Government-furnished equipment so that those costs could be added to the contract price for the upgrade kits. Although the Defense Accounting Office requested the costs associated with those kits from the item managers, the item managers did not provide the information to the Defense Accounting Office for about 6 months. As a result, the Defense Accounting Office could not report shipments of the upgrade kits to the DFAS Denver Center for billing FMS customers, and DoD was unable to recoup \$1.7 million in general and administrative expenses in a timely manner.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander, Army Materiel Command, modify the Commodity Command Standard System, or its replacement system, to allow foreign military sales material "shipped in place" at contractor facilities to be recorded.

Management Comments. The Army concurred with the recommendation, stating that the U.S. Army Security Assistance Command will develop functional requirements to identify system changes needed to allow FMS materiel "shipped in place" to be recorded. The required system changes will be incorporated into the Commodity Command Standard System or its replacement system, the DoD Materiel Management Standard System. An analysis of the necessary functional requirements is to be completed by September 1, 1995. The Army stated that a change to the Commodity Command Standard System should be completed by April 1996 or to the DoD Materiel Management Standard System by April 1997.

2. We recommend that the Commander, Naval Supply Systems Command, reprogram the Management Information System for International Logistics, or its replacement system, to report shipments of material transactions for major end items to the Defense Finance and Accounting Service Denver Center using the billing price.

Management Comments. As of June 7, 1995, the Navy had not commented on a draft of this report. Therefore, we request that the Navy provide comments on the final report.

3. We recommend that the Commander, Warner Robins Air Logistics Center, implement operating procedures for the F-15 Aircraft Systems Program Office to ensure item managers properly record all contract information in the Air Force Acquisition and Due-In System for foreign military sales customers.

Reporting Shipments of Material for Foreign Military Sales Customers

Management Comments. The Air Force concurred with the recommendation, stating that the Warner Robins Air Logistics Center (Financial Management and Comptroller) issued a policy letter on April 12, 1995, to the F-15 Aircraft Systems Program Office to ensure compliance with Air Force procedures for processing FMS requirements.

4. We recommend that the Commander, San Antonio Air Logistics Center, require the item managers to provide the Defense Accounting Office San Antonio with Government-furnished equipment costs by contract line item for the billing of F-15 engine upgrade kits.

Management Comments. The Air Force concurred with the recommendation, stating that the San Antonio Air Logistics Center revised the procedures for reporting kit transactions for FMS customers. The revised procedures require the LPI directorate responsible to submit kit price confirmation letters to the Defense Accounting Office; and to provide the LPI program managers with revised kit pricing procedures, to include the use of a kit pricing worksheet that identifies Government-furnished material and nonrecurring costs. Regarding the kit transactions, the San Antonio Air Logistics Center stated that the requisitions were applicable to the Saudi Arabian F-15 engine upgrade kits and not the F-16 aircraft.

Audit Response. We consider the Air Force comments responsive. Based on the Air Force comments regarding the Saudi Arabian requisitions, we changed the reference of the F-16 aircraft program to the F-15 engine upgrade kits.

This page was left out of original document

Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Program Results. Modification of the CCSS, or its replacement system, will ensure that FMS customers are billed for material.	Unquantifiable*
2.	Program Results. Modification of the MISIL, or its replacement system, will ensure customers are billed for material in a timely manner.	Unquantifiable*
3. and 4.	Management Controls. Implementation of procedures will ensure that contract information is properly recorded in the supply system and FMS customers are billed promptly.	Unquantifiable*

*Benefits of modifying a system or implementing procedures could not be measured in dollar savings.

Appendix B. Organizations Visited or Contacted

Department of the Army

U.S. Army Materiel Command, Alexandria, VA
U.S. Army Communications and Electronics Command, Fort Monmouth, NJ
U.S. Army Missile Command, Huntsville, AL
U.S. Army Security Assistance Command, New Cumberland, PA
U.S. Army Tank-automotive and Armaments Command, Warren, MI

Department of the Navy

Naval Air Systems Command, Washington, DC
Navy International Programs Office, Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Navy International Logistics Control Office, Philadelphia, PA

Department of the Air Force

Air Force Materiel Command, Wright-Patterson Air Force Base, OH
Air Force Security Assistance Center, Wright-Patterson Air Force Base, OH
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Warner Robins Air Logistics Center, Warner Robins, GA

Other Defense Organizations

Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Columbus, OH
Defense Finance and Accounting Service Center, Denver, CO
Defense Logistics Agency, Alexandria, VA
Defense Distribution Region East, New Cumberland, PA
Defense Electronics Supply Center, Dayton, OH
Defense General Supply Center, Richmond, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Security Assistance Agency, Washington, DC

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense (Logistics)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army
Commander, Army Materiel Command

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander, Naval Air Systems Command
Commander, Naval Supply Systems Command

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Air Force Materiel Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Security Assistance Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Central Imagery Office

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
- House Committee on National Security

This page was left out of original document

Part IV - Management Comments

Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500



DALO-SAA

10 May 1995

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS

~~DIRECTOR OF THE ARMY STAFF~~ *for 11 May 95* GREGORY P. GUILLIE, LTC, GS, ADECC

~~ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)~~

24 MAY 1995

Robert M. Walker
ASA (ILE)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: IG DoD DRAFT Audit Report on Supply Performance for Foreign Military Sales (Project No. 4FA-0028)--INFORMATION MEMORANDUM

1. This is in response to USAAA memorandum of 22 March 1995 (Tab A), which asked ODCSLOG to respond to your memorandum of 23 March 1995 (Encl to Tab A). Your memorandum requested that ODCSLOG review and comment on IG DoD DRAFT Audit Report on Supply Performance for Foreign Military Sales (Project No. 4FA-0028).
2. The Army's position on the IG DoD DRAFT Audit Report on Supply Performance for Foreign Military Sales (Project No. 4FA-0028) is at Tab B.

2 Encls

FRANK S. BESSON III
FRANK S. BESSON III
Director of Security Assistance

CF:
VCSA
CDR, AMC
SAAG-PRF-E
DALO-ZXA

AMC, AMCIR-A - Concur, Mr. Kurzer, 274-9025 (memorandum)
USASAC, AMSAC-SI - Concur, Mr. Haskins, 977-7389 (memorandum)

Peter Liszewski/X50390

0305
NASA(1) #

FINDINGS AND RECOMMENDATIONS

IG DoD DRAFT Report
Supply Performance For Foreign Military Sales
(Project No. 4FA-0028)

FINDING: The military Departments did not promptly report shipments of materiel costing \$1.9 billion to the DFAS Denver Center for its use in billing FMS customers. The condition occurred because the Army's Commodity Command Standard System did not process transactions for materiel "shipped in place" at contractor facilities, the Navy's MISIL system did not report estimated billings for major end items within established timeframes, and the Air Force did not have effective procedures for ensuring that shipments of materiel were properly recorded in the supply system. As a result, the Military Departments delayed reimbursement of \$54.4 million in general and administrative expenses to DoD. Further, the Army and the Air Force expended unnecessary resources to manually record shipments of materiel in the supply system.

RECOMMENDATION: We recommend that the Commander, U.S. Army Materiel Command, modify the Commodity Command Standard System, or use its replacement system, to allow foreign military sales materiel "shipped in place" at contractor facilities to be recorded.

COMMAND COMMENTS: Concur. USASAC will develop functional requirements to identify business processes and system changes required to allow foreign military sales materiel "shipped in place" at contractor facilities to be recorded. The requirement crosses functional boundaries, so system changes may be initiated in several functional areas. We will coordinate the various changes.

The required changes will either be incorporated into the existing Commodity Command Standard System (CCSS) or, its successor, the DOD Materiel Management Standard System (MMSS). The decision to make the changes will be based on the complexity of the change, cost, and the action of the Configuration Control Board.

Analysis of the requirement will begin by 31 May 95 and should be completed by 1 Sep 95. The target date for completion is April 1996 if the change is made to CCSS and April 1997 if the change is made to MMSS.

Air Force Comments



OFFICE OF THE UNDER SECRETARY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

23 MAY 1995

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/LAX

SUBJECT: DOD (IG) Draft Audit Report on Supply Performance for Foreign
Military Sales, 23 Mar 1995, Project No. 4FA-0028

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report.

Reference Part I, Introduction. Other Matters of Interest, The Air Force's System for Processing RODS, page 7. We concur with the audit findings that the ROD offices at the Air Logistics Centers (ALCs) should have access to ROD information contained in the Security Assistance Management Information System (SAMIS) for processing RODS. ALC access to SAMIS for ROD processing was in the planning stages by AFSAC/ROD before the audit and has since been initiated and implemented. ALC training on the use of the SAMIS ROD tracker was completed on 31 March 1995. No further action is anticipated in response to this audit. Any lack of internal controls have been corrected by the implementation of the ALCs access to SAMIS ROD data. No further material weakness was identified.

Reference Part II, Findings and Recommendations, Reporting Shipments of Material for Foreign Military Sales Customers, Systems and Procedures Used to Report Material Shipments, Air Force Procedures, F-15 Aircraft Program Shipments, Finding, page 13 and Recommendations for Corrective Actions, paragraph 3, page 15. Concur with finding. Procedures contained in AFM 67-1, Volume IX and WR-ALC Regulation 400-10 are adequate and provide the necessary guidance to process FMS requirements correctly. Deficiencies were created because of non-compliance with provided procedures; therefore, no material weakness is identified. A letter was sent under the signature of the Warner Robins Air Logistics Center Financial Management and Comptroller on 12 April 1995 to the F-15 Aircraft Systems Program Office to ensure compliance with proper guidance.

Potential monetary benefits. none. Action is complete. Recommend this item be closed.

Reference Part II, Findings and Recommendations, Reporting Shipments of Material for Foreign Military Sales Customers, Systems and Procedures Used to Report Material Shipments. Air Force Procedures, F-16 Aircraft Upgrade Kits Shipments, page 14. Concur with the auditor's findings; however, some clarification was required. The audit report did not identify kit managers contacted nor did it list kit numbers or FMS requisitions used in this investigation. When additional information was requested from DOD IG, the San Antonio Air Logistics Center was furnished a sampling of FMS requisitions used in this investigation. Their findings were:

a. The requisitions were applicable to the Saudi Arabia (SR) F-15 engine upgrade program not F-16 aircraft. SR does not have any F-16 aircraft in their fleet. SA-ALC/LPF is the kit manager for F-15 (F100-PW-220E engine) upgrade kits. However, SA-ALC/LPI procures these kits for FMS countries using the contracting vehicles which LPF has in place. As a result, there was some confusion by DAO regarding which organization (LPF or LPI) they should send requests for contract cost verification. This resulted in a lag time of six months (time DAO sent out letters for contract kit "cost" information and time they received cost information for delivery reporting). This has been resolved and LPI has been designated as the OPR for verifying contract kit costs for FMS countries procuring F100 engine kits.

b. Secondly, the kits associated with these SR requisitions were procured from the contractor and do not contain any GFM.

Regarding recommendation, this is being accomplished. When DAO at San Antonio sends LPI (Office of Primary Responsibility) a confirmation letter, the LPI Program Manager:

a. Obtains a copy of the contractor shipping document (DD250).

b. Matches the information on the DD250 with the Delivery/Shipment Suspense (SAMIS product) for the FMS requisition.

c. Forwards confirmation letter to DAO for delivery reporting. What was not being done at this step was filling out a Kit Pricing Worksheet which identifies and includes GFM, non-recurring charges, etc. (if applicable). FMII (FMS Policies and Procedures) has furnished the LPI program manager revised kit pricing procedures along with worksheets to be used effective immediately. The LPI program manager will start using these worksheets immediately.

Air Force Comments

Potential monetary benefits, none. Action is complete. Recommend this item be closed.

Point of contact for this report is Charlotte Lancaster, SAF/IAXM, extension 75059.



ROBERT J. KUEHN, JR., Colonel, USAF
Chief, Policy Division
Deputy Under Secretary, Int'l Affairs

Audit Team Members

Russell A. Rau
Evelyn R. Klemstine
Ronald C. Tarlaian
Carolyn B. Jones
Averel E. Gregg
Shawn L. James